

Members

Rep. Thomas Kromkowski, Chairperson
Rep. Ron Liggett
Rep. Lawrence Buell
Rep. Richard Mangus
Sen. Joseph Harrison
Sen. Thomas Weatherwax
Sen. Allie Craycraft
Sen. Larry Lutz
Steve Meno
Claude Davis
William Gettings, Jr
Connie Lux



PENSION MANAGEMENT OVERSIGHT COMMISSION

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Authority: IC 2-5-12-1

MEETING MINUTES¹

Meeting Date: August 8, 2000
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington
St., Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 1

Members Present: Rep. Thomas Kromkowski, Chairperson; Rep. Ron Liggett; Rep. Lawrence Buell; Rep. Richard Mangus; Sen. Joseph Harrison; Sen. Thomas Weatherwax; Sen. Allie Craycraft; Sen. Larry Lutz; Mr. Steve Meno; Mr. Claude Davis.

Members Absent: Mr. William Gettings, Jr; Ms. Connie Lux.

Representative Thomas Kromkowski, Chairman of the Commission, convened the meeting shortly after 10:00 A.M. After the members of the Commission were introduced, Representative Kromkowski gave a brief overview of the Commission's duties. He also noted that the Legislative Council had assigned the following study topics to the Commission: (1) study local public safety personnel pensions; (2) study state-funded health care, including prescription drug insurance for retired state employees; (3) study issues dealing with chief of police and town marshal pensions and health insurance; and (4) study the benefit of permitting members of the Public Employees' Retirement Fund

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

(PERF) to make any discretionary contributions to their annuity savings accounts in annuities provided by licensed insurers. Representative Kromkowski stated that the Commission would also examine the possibility of providing for participation of Marion County constables in PERF.

I. PERF AND TRF FUNDING ISSUES

Representative Kromkowski then recognized Mr. Doug Todd of McCready and Keene, the actuaries for PERF. Mr. Todd distributed to the Commission a listing of the unfunded actuarial accrued liabilities and the "funded ratios" of the defined benefit plans administered by PERF. (See Exhibit A, "Funded Status of Defined Benefit Plans Administered by PERF".)

Mr. Todd noted that PERF's funded ratio (which is computed by dividing the plan's assets by the plan's actuarial accrued liability) is 109%. Senator Tom Weatherwax asked whether the funding level of PERF could be attributed to the Fund's investment in equities during the past few years. Mr. Todd answered that the investment in equities was one factor.

Mr. Todd stated that the funding ratio of the pre-1977 police and firefighter funds was only 14.9%, even when the assets in the state Pension Relief Fund are considered to be assets of those funds. Senator Larry Lutz asked Mr. Todd what steps are being taken to increase the funding ratio of the pre-1977 funds. Mr. Todd stated the assistance from the Pension Relief Fund is the only state-funding mechanism to help cities and towns pay their pension liabilities from pre-1977 funds. He noted that the Pension Relief Fund pays for roughly one-half of the benefits paid from those funds.

Senator Weatherwax asked whether the 1977 Fund has the ability to invest in equities. Mr. Mark Webb, Deputy Director of PERF, explained that the 1977 Fund could invest in equities. Ms. Mary Beth Braitman, an attorney with the firm Ice Miller, the outside counsel to PERF, commented that because of the relatively short life-span of the Pension Relief Fund, its assets were not invested in equities to the same extent as the pension funds administered by PERF.

Representative Richard Mangus asked whether there is a minimum benefit payable to PERF members. He gave a number of examples of PERF members who had worked at relatively low-paying positions and who now received fairly small pension benefits. Mr. Webb stated that the minimum PERF benefit is \$50.

Senator Allie Craycraft asked Mr. Todd whether the percentage of pre-1977 fund benefits paid through assistance from the Pension Relief Fund has changed recently. Mr. Todd replied that it had been fairly stable at 50%.

Representative Kromkowski then recognized Ms. Sandy Rodwan of Gabriel, Roeder, and Smith, the actuaries for the Indiana State Teachers' Retirement Fund (TRF). Ms. Rodwan distributed to the Commission a summary of the membership and actuarial condition of TRF. (See Exhibit B, "Summary of Actuarial Condition".) Ms. Rodwan began by commenting that the General Assembly had done a tremendous job of improving TRF funding over the last six years. She pointed to the creation of the pre-funded "new" TRF plan in 1995 and the creation of the Pension Stabilization Fund.

Ms. Rodwan said that the pre-1996 "closed" TRF plan had, as of June 30, 1999, over 56,000 active members and more than 32,000 retired members. According to Ms. Rodwan, the annual state-financed portion of the benefits for these members is \$330 million, and that over the next 30 years this payout will grow to \$1.5 billion. She stated that,

as of June 30, 1999, the unfunded accrued liability of TRF's closed plan was more than \$7.4 billion, which is a 39.6% funding ratio (improved from 36% in 1998). She also noted that it is estimated that over the next 15 years the closed plan's unfunded accrued liability will increase to \$11 billion, assuming no cost of living adjustments, or to \$16 billion, assuming a 2% cost of living adjustment each year.

Ms. Rodwan informed the Commission that TRF's new plan, which consists of persons hired after 1995, had over 21,000 active members and an unfunded accrued liability of \$258 million on June 30, 1999. Ms. Rodwan said that the new plan's current contribution rate of 8.5% of member payroll would have to be increased to amortize this unfunded accrued liability. She explained that the actuarial experience of the new plan had been less favorable than the actuarial assumptions.

Representative Ron Liggett and Senator Craycraft asked Ms. Rodwan whether teachers who leave employment with one school corporation to take a position with another school corporation are transferred from TRF's closed plan to the new plan. Ms. Rodwan replied that teachers who change employment in this manner are transferred to TRF's new plan. In answer to questions from Representative Liggett and Senator Craycraft, Ms. Rodwan explained that the benefits paid to TRF members are computed in the same manner, regardless of whether a person is member of the closed plan or the new plan.

Mr. Steve Meno asked who was responsible for the decision to increase the funding rate for the new plan. Dr. William Christopher, the Director of TRF, explained that the TRF Board of Trustees would be the body responsible for that decision.

II. PENSION RELIEF FUND ISSUES

Representative Kromkowski then recognized Mr. Doug Todd of McCready and Keene for a discussion of the Pension Relief Fund. Mr. Todd distributed to the Commission a briefing paper concerning the Pension Relief Fund. (See Exhibit C, "History and Overview of the Pension Relief Fund".) He began by stating that the Pension Relief Fund had been established in 1977 to assist municipalities with the burden of funding police and firefighter pensions. He explained that the Pension Relief Fund provided two distributions: (1) the "K formula" distribution, which is designed so that a municipality's share of benefits would only increase at a certain percentage each year until the Pension Relief Fund money ran out; and (2) the "M formula" distribution, which provides pension relief distributions so that a municipality's share of pension benefits would remain at a level percentage of maximum property tax levies.

Mr. Todd then briefly described the following additional steps that the General Assembly has taken to help municipalities meet their police and firefighter pensions: (1) an appropriation of \$100 million during the 1990s; (2) moving the "converted members" of the pre-1977 plans away from the responsibility of the municipalities and into the 1977 Fund; and (3) providing in 1999 for a \$20 million annual contribution (from lottery revenue) to the "M" portion of the Pension Relief Fund.

Senator Craycraft suggested that the Commission should consider the possibility of using a greater percentage of existing cigarette and alcoholic beverage taxes for the purpose of funding the Pension Relief Fund.

Representative Kromkowski then recognized Ms. Braitman, who distributed a short paper concerning pension relief to the Commission. (See Exhibit D, "Possible Options for Pension Relief".) Ms. Braitman began by noting that the Pension Relief Fund distributions for each year are based on prior-year data. She said that during its 2000 Session the

General Assembly had considered legislation that would have changed the distributions so that they would be based on current-year data. Ms. Braitman then discussed other options concerning short-term pension relief: (1) moving additional "converted members" to the 1977 Fund; (2) moving beneficiaries of members who died before May 1, 1977, to the 1977 Fund or the Death Benefit Fund; or (3) providing additional relief under a formula that would consider the relative pension funding needs of municipalities. She then briefly discussed the possibility of providing additional funding to hold the aggregate municipal share of pension obligations to a 5% growth line.

Mr. Claude Davis asked whether, if the distributions were changed to current-year data, double payments would be made in the year of the change. Ms. Braitman answered that there would be double payments during that year. Mr. Davis asked how these double payments would be funded, and Ms. Braitman answered that they would be paid from the Pension Relief Fund.

Senator Weatherwax stated that he would like information on the total amounts that cities have been paying for their pension obligations. He commented that he believed the real issue was what the state and the municipalities each must do to make progress in the funding problem.

Representative Kromkowski recognized Mr. Tom Miller, representing the professional firefighters. Mr. Miller stated that it was important for the Commission to generate ideas to address the funding problem, and that this problem should not be politicized. He said that representatives of the firefighters and the police officers would work with the Commission on this issue.

Mr. Matt Brase of the Indiana Association of Cities and Towns (IACT) was then recognized by Representative Kromkowski. Mr. Brase distributed to the Commission an IACT policy resolution concerning police and firefighter pensions. (See Exhibit E, "Indiana Association of Cities and Towns Policy Resolution".) Mr. Brase explained that language was being added to the policy resolution to urge the General Assembly to "provide additional continuous funding to mitigate the dramatic increase in pension liabilities in local governments" and to urge that the General Assembly "more adequately share those costs between municipal and state government." Senator Weatherwax asked Mr. Brase if IACT had developed a plan concerning additional funding for pension relief. Mr. Brase said that IACT would work with the Commission in addressing the funding problems.

Representative Kromkowski then recognized Mr. Steve Moberly of the Indiana Retired Teachers Association. Mr. Moberly stated that the members of the Association were interested in: (1) making progress in reducing TRF's unfunded liabilities; and (2) having the General Assembly make additional appropriations to the TRF Pension Stabilization Fund. He commented that the General Assembly had acted wisely in its pre-funding of cost-of-living adjustments during the past few years.

III. PERF AND TRF EARNINGS LIMITATIONS

Representative Kromkowski then called on Ms. Braitman for a discussion of the PERF and TRF earnings limitation and how that limit has been affected by recent changes in federal law. (See Exhibit F, "Briefing Paper on the Senior Citizens Freedom to Work Act of 2000".)

Ms. Braitman stated that under Indiana law, a PERF or TRF member who is receiving pension benefits and is then reemployed in a PERF or TRF covered position may continue receiving benefits until the member earns more than the Social Security normal retirement age earnings limit. She explained that if the member earns more than the federal limit,

Indiana law provides that the member's benefit stops and that the member must begin making contributions.

However, Ms. Braitman said that in April of 2000, federal legislation was enacted that eliminates the Social Security earnings limitation beginning with the month a person attains full retirement age (currently age 65). She stated that this federal act eliminated the earnings limit that is referenced by Indiana law, and that therefore there is no earnings limit for PERF and TRF retirees who return to work in PERF or TRF covered positions. Ms. Braitman also pointed out to the Commission that even before the federal legislation was enacted, there was no earnings limitation for PERF and TRF retirees who work in non-PERF or non-TRF covered positions.

Ms. Braitman then described three possible approaches that the General Assembly could take: (1) reinstating an earnings limitation based on what the federal earnings limitation would have been (\$17,000 in 2000, increasing to \$30,000 in 2002); (2) paralleling the Social Security reduction for retirees younger than the Social Security normal retirement age (i.e., a retiree in 2000 who is less than age 65 would have an earnings limit of \$10,800; a retiree age 65 or older would have no earnings limit); or (3) providing that there is no earnings limit for PERF and TRF retirees. She commented that the change in federal law required a change in the PERF or TRF statutes, regardless of the approach taken by the General Assembly.

Senator Craycraft commented that even if there were no limit in state law for early retirees, the federal earnings limitation would still apply to those persons. Senator Weatherwax stated that it was important for the Commission to know the cost of each option.

IV. PERF AND TRF ADMINISTRATIVE ISSUES

Representative Kromkowski recognized Mark Webb of PERF to discuss PERF administrative issues. Mr. Webb stated that PERF is recommending that an expedited or simpler process be established for units in PERF that wish to add new positions to PERF coverage. In response to a question from Senator Joseph Harrison, Ms. Braitman specified that the proposed expedited coverage process would not be available to units entering PERF as a whole, but only to units currently in PERF that are covering additional positions. Mr. Webb explained that such an expedited coverage procedure would not affect PERF, because the employing unit would be required to make the normal contributions for the employees in the newly covered positions.

Ms. Braitman also testified that: (1) TRF is proposing that all TRF employees should be covered by TRF; and (2) there are inconsistent firefighter reemployment policies in Indiana law, because the 1925, 1953, and 1977 funds allow a firefighter to be reappointed if the member can complete 20 years of service before reaching age 60, while the 1937 fund law does not include this provision. (See Exhibit G, "Briefing Paper on Administrative Issues".)

V. OTHER ISSUES

Representative Kromkowski then recognized Major Larry Larkin of the Indiana State Police. Mr. Larkin stated that he was representing Superintendent Melvin Carraway, who wished to inform the Commission that he intended to address the lack of a COLA for members of the 1987 State Police Benefit System.

Mr. Brase of IACT was then recognized by Representative Kromkowski. Mr. Brase distributed a letter from Ms. Sonya Margerum, the mayor of West Lafayette. (See Exhibit H.) Mr. Brase explained that Mayor Margerum is concerned that while municipalities may

make partial payments toward police or firefighter PERF employee contributions, the statutes do not allow municipalities to make partial payments of civilian employees' PERF employee contributions.

Representative Kromkowski stated that at the next meeting the Commission would be discussing insurance issues for retired state employees. He also commented that he intended to reintroduce the bills that the Commission had recommended in past years concerning judges and prosecuting attorneys.

The Commission's next meeting date was set for September 14 at 10:00 A.M.

There being no further business, Representative Kromkowski adjourned the meeting at approximately 11:50 A.M.